Clark County, Washington

Investment Management Review
First Quarter 2002

Public Financial Management, Inc.
One Keystone Plaza, Suite 300
North Front & Market Streets
Harrisburg, PA 17101-2044
(717) 232-2723
fax (717) 233-6073

During the first quarter, the manufacturing sector has shown significant improvement highlighted by Real Gross Domestic Growth posting a 5.8% gain in the quarter. These positive reports sent interest rates higher across all maturity ranges. Although several manufacturing indicators have turned quite positive, many fear that this trend may only be temporary due to a replenishment of depleted inventory levels. Many market observers point to the growing unemployment rate and the low level of capacity utilization as impediments to a sustained economic recovery in the near term. With inflation at 17-year lows, the Federal Reserve may be more inclined to postpone raising interest rates.

The County pool portfolio had a par value of $485 million as of March 31, 2002, a slight decrease from $504 million as of December 31, 2001. The portfolio was slightly restructured shifting away from Commercial Paper and Federal Agency Discount Notes into the Washington State Local Government Investment Pool. Due to the narrow spreads between Federal Agencies and U.S. Treasuries, the allocation to U.S. Treasuries was increased. The Pool portfolio remains well diversified by sector and maintains a high overall credit quality, liquidity, and exposure to call/reinvestment risk. A summary of first quarter highlights and PFM's recommendations follow.

Sector Composition Comparison

	3/31/2001	12/31/2001	3/31/2002	Quarter Change
Certificates of Deposit	1.4%	0.0%	0.0%	0.0%
Commercial Paper	0.0%	2.0%	0.0%	(2.0%)
Federal Agency Discount Notes	4.3%	7.9%	4.1%	(3.8%)
Federal Agency Notes	61.0%	52.6%	49.4%	(3.2%)
Treasury Securities	8.5%	6.9%	11.3%	4.4%
Municipal Obligations	1.4%	1.0%	1.0%	0.0%
Passbook/Money Market Accts	23.4%	29.5%	34.1%	4.6%
Totals	**100%**	**100%**	**100%**	

*Based on par values of securities in pool portfolio.

- ***Asset Diversification*** **–** The asset allocation of the portfolio changed only slightly quarter-over-quarter. The allocation to U.S. Treasuries increased by 4.4 percent points to 11.3% of the portfolio. The allocation to Money Market Accounts, also increased modestly, due to the yield advantage of the State LGIP. As of March 31, 2002, the allocation to this sector was 34.1%.

- ***Maturity Distribution*** **–** The County's pool portfolio maintained an average maturity of 8.8 months during the quarter. PFM's suggested an average maturity of 8-9 months in light of the current level of interest rates.

- ***Credit Quality*** – The County maintained the portfolio's low exposure to credit risk. As of the end of the quarter, 65% of the portfolio was invested in securities rated "AAA". 34% of the portfolio was invested in the un-rated State LGIP.

- ***Liquidity*** **–** As of March 31st, 99% of portfolio assets were categorized in one of PFM's top three liquidity rating categories (1, 2, and 3). The overall weighted liquidity factor was 2.42, well within PFM's recommended range of 2 to 4.

- ***Market Risk*** –The Pool remains principally invested in securities maturing under 2-years as of March 31st, classifying 87.6% of the portfolio in the low to low/average categories of market risk.

- ***Callable Exposure*** – The total portfolio's exposure to call risk declined modestly to 8.2% due to several securities being called. This allocation is in line with PFM's maximum recommended limit of 20% to 25%.

- ***Performance*** – Over the past quarter, the total annualized return of the County pool portfolio was 1.75%. This exceeded the performance of the Merrill Lynch custom Treasury benchmark having an average maturity of nine months by 54 basis points (0.54).[1 2]

As described in more detail in the accompanying report, the investment strategy employed by the County Pool appears to be prudent and appropriate given the County's historic cash flow patterns and current market conditions.

[1] The Merrill Lynch custom Treasury benchmark is currently comprised of two Merrill Lynch Treasury Indices. The custom benchmark consisted of 50% of the Merrill Lynch 6-Month Treasury Bill Index and 50% of the Merrill Lynch 1-Year Treasury Bill Index through August 2001. Upon the discontinuance of 1-year Treasury Bills by the U.S. Treasury Department, the Merrill Lynch 1-Year Treasury Note Index has been substituted.

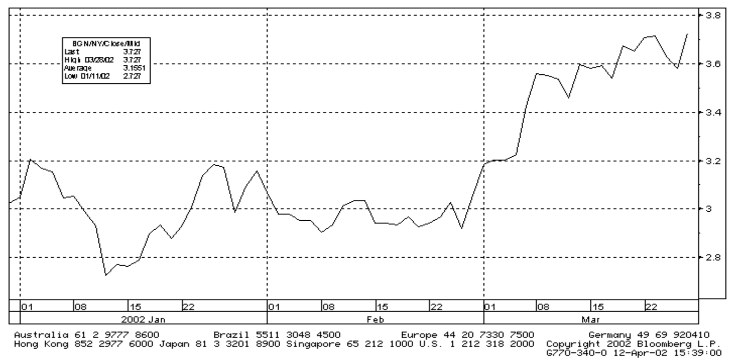
[2] Clark County pool portfolio returns were calculated and provided by the County's Treasury Office.

First Quarter 2002 Economic Summary

Interest rates rose sharply during the quarter as investors became convinced the economy had turned away from recession. If so, this would mark the shortest economic downturn in recent history. The rise in rates resulted in returns on most fixed income investments that were low by recent historic standards; indeed longer maturity investments suffered their second consecutive quarter of negative returns.

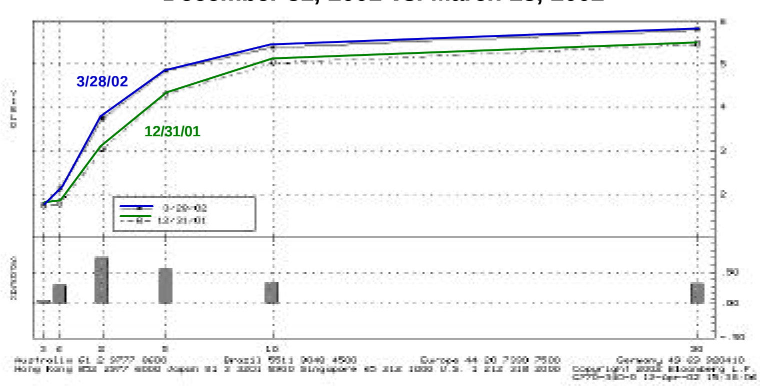
The economic data released during the quarter were almost uniformly bullish. The most broad-based indicator on the state of the economy, Real Gross Domestic Product growth, posted an increase of 1.7% in the fourth quarter. This was sharply higher than initial expectations as consumer and government spending increased by 6.1% and 10.2%, respectively. In addition, the Institute for Supply Management Purchasing Managers' Index (formerly known as NAPM) rose from a level of 48.1% in December to 55.6% in March. For the first time in nearly 19 months, this gauge of manufacturing activity has shown signs of growth rather than contraction. The robust level of each of these reports signaled to investors that the economy was improving faster than expected; raising fears that the Federal Reserve will begin raising interest rates.

2-Year U.S. Treasury Yield History
January 1995 – March 2002



In 2001, the Federal Reserve slashed short-term interest rates from 6.50% to 1.75% to maintain "the fabric of confidence" among consumers in light of the growing number of corporate layoffs and global uncertainity. The Federal Reserve left interest rates unchanged at its January 30, 2002, meeting, but maintained its 'weakness' bias. As conditions have improved in recent weeks, the likelihood of weak economic conditions persisting has diminished. Although the Federal Reserve left the Federal funds rate unchanged at its March 19th and May 7th meetings, the Federal Reserve shifted its bias to 'neutral' stating the risks to its long-term goals of price stability and sustainable economic growth are balanced. This shift in the Federal Reserve's risk assessment reaffirmed the strength shown by several economic indicators which sent interest rates on all maturities rising higher. The yield on the 2-year Treasury Note rose 70 basis points (0.70%) during the quarter from 3.02% to 3.72%. The yield on the 5-year Treasury Note increased 54 basis points (0.54%) to 4.84% and the yield on the 10-year Treasury Note increased 35 basis points (0.35%) to 5.40%. Short-term maturities are factoring a possible hike in the Federal funds rate as early as the June 26th meeting, with the yield on the 6-month Treasury Bill at 2.10%--31 basis points (0.31%) higher than the beginning of the quarter.

U.S. Treasury Yield Curve
December 31, 2001 vs. March 28, 2002



The sharp rise in interest rates during the quarter resulted in disappointing performance on all fixed-income indices, as expected in a rising rate environment. The Merrill Lynch 1-3 year U.S. Treasury Index reported an annualized return of just 0.03%. Longer-term indices reported their second consecutive negative return as the Merrill Lynch 3-5 year Treasury Index fell 1.69% on an annualized basis and the Merrill Lynch 5-year Treasury Index declining an annualized 3.83%. During the first quarter, spreads between Federal Agencies and U.S. Treasuries narrowed slightly, resulting in a performance advantage for the Federal Agency sector. Returns of high-quality corporates exceeded the returns on comparable Treasury indices, but lagged Federal Agency indices. Returns of 'AA'-'AAA' corporates exceeded the returns on 'A' corporates as investors remain concerned with corporate profitability and accounting issues.

After dramatically rising in the fourth quarter, the equity markets moved only modestly during the quarter. The Dow Jones Industrial Average was the best performer of the three major indices as it posted a 3.82% return. The Standard & Poor's 500 Index fell slightly by 0.06%, while the volatile NASDAQ Index fell 5.69%. Although demand is expected to pick up as businesses replenish depleted inventory levels, investors remained concerned with the pricing power of corporations to increase bottom-line results.

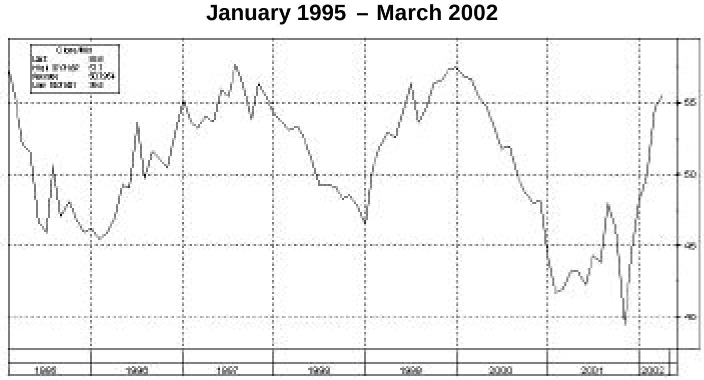
The first quarter proved to be the transition point for an economic recovery. With the unemployment rate stabilizing, manufacturing activity increasing, and consumer confidence jumping to pre-September 11th levels, the elements of a sustained economic recovery seem to be in place after one of the mildest recessions in U.S. history. As the level of economic activity quickly increases, the question will turn to the pace at which the Federal Reserve will begin raising rates.

Although the U.S. economy is technically in recession, recent economic data shows significant improvement when compared to the 4th quarter. Even the Federal Reserve Chairman, Alan Greenspan, was caught off guard by the resiliency of the economy, forcing him to revise his semi-annual testimony to Congress in a matter of days in late January. Greenspan stated, "The recent evidence increasingly suggests that an economic expansion is already well under way." This noticeable change in outlook has sent consensus estimates sharply higher for GDP growth.

GROSS DOMESTIC PRODUCT (GDP) GDP for the fourth quarter was upwardly revised to +1.7% from a preliminary reading of +0.2%. This was attributed to strong growth in government spending and consumer expenditures. Industrial Production has shown improvement as output at factories, utilities, and mines rose 0.4% in February. The January report was revised from a 0.1% loss to a 0.2% gain. Consensus estimates for 1st quarter GDP is in the neighborhood of 4%. Although the headline figure is expected to be quite impressive, caution should be placed in not reading too much into this number as unsustainable inventory buildup is expected to account for a large portion of this increase.

MANUFACTURING ACTIVITY The index survey by the Institute for Supply Management (ISM), formerly the National Association of Purchasing Management in March rose to 55.6%. The sharp increase in this index is attributable to new orders rising to its highest level since December 1983. Despite a pickup in new orders, a growing number of purchasing executives believe inventory levels are too low. This indicates that manufacturing activity should

ISM Purchasing Managers Index
January 1995 – March 2002



continue to show improvement as businesses restock depleted inventory levels. A reading above 50 indicates expansion in the manufacturing sector.

EMPLOYMENT Non-farm payrolls showed the first increase since July 2001 in the month of March. The hemorrhage of job layoffs appears to have subsided. Initial jobless claims are down sharply from the high set in September of 535,000. The unemployment rate declined from 5.8% in December 2001 to 5.7% in March 2002. Sufficient capacity exists in the manufacturing sector that will permit businesses to meet increased demand without the hiring of additional workers suggesting that the unemployment rate will not decline significantly for some time.

CONSUMER CONFIDENCE Consumer confidence strengthened considerably during the quarter rising 12.4 points from a level of 94.6 in December to 110.2 in March. In March, consumer confidence posted its largest jump in 11 years. Confidence was bolstered by an optimistic economic outlook and recent gains in the equity markets. However, this index remains at August 2001 levels.

RETAIL SALES Year-over-year retail sales growth remains in the low single digits as individuals take advantage of incentives offered by manufacturers. New and existing home sales remain robust reaffirming confidence in the economy.

CONSUMER AND PRODUCER PRICES Inflationary pressures are benign with the Consumer Price Index showing a year-over-year increase of 1.1% in February—the lowest level since December 1986. CPI excluding the volatile food and energy sectors shows a slightly higher year-over-year increase of 2.6%, which is in-line with recent months. The Producer Price Index shows the year-over-year change in prices to be negative 2.6%--the largest year-over-year decline since 1950. Crude oil prices have begun rising as OPEC nations reduced inventory levels and Middle East tensions flared up. The price of a barrel of crude oil rose over 30% during the quarter from just under $20 per barrel to $26 per barrel of oil. A secondary gauge of inflation, the personal consumption expenditures index (PCE Index), shows inflation at a much lower year-over-year change of 1.1% in February when excluding food and energy. The difference between the CPI Index and the PCE Index is that the CPI Index tracks the price movement of a basket of goods, while the PCE Index tracks the costs of things people actually buy as their spending patterns change when one item becomes cheaper or pricier relative to another.

Sector Distribution

The table below compares the portfolio composition of the County pool for the past two quarters and one year ago. Despite the last cut in the Federal Funds rate occurring nearly four months ago in early December; some money market accounts, such as the Washington State Local Government Investment Pool, still offer a higher yield than alternative short-term money market instruments. As of March 31, 2002, the yield on the Washington State LGIP was 1.88%, which compares favorably to short-term yields of 1.75%. The County increased the allocation to money market funds from 29.5% to 34.1%. As of quarter end, the County pool maintained a balance of approximately $165.4 million in passbook/money market funds. This was an increase of $16.4 million since December 31, 2001. We recommend that the County continue to invest short-term funds in the State LGIP as long as the LGIP pays a rate above the prevailing market rate.

Sector Composition Comparison

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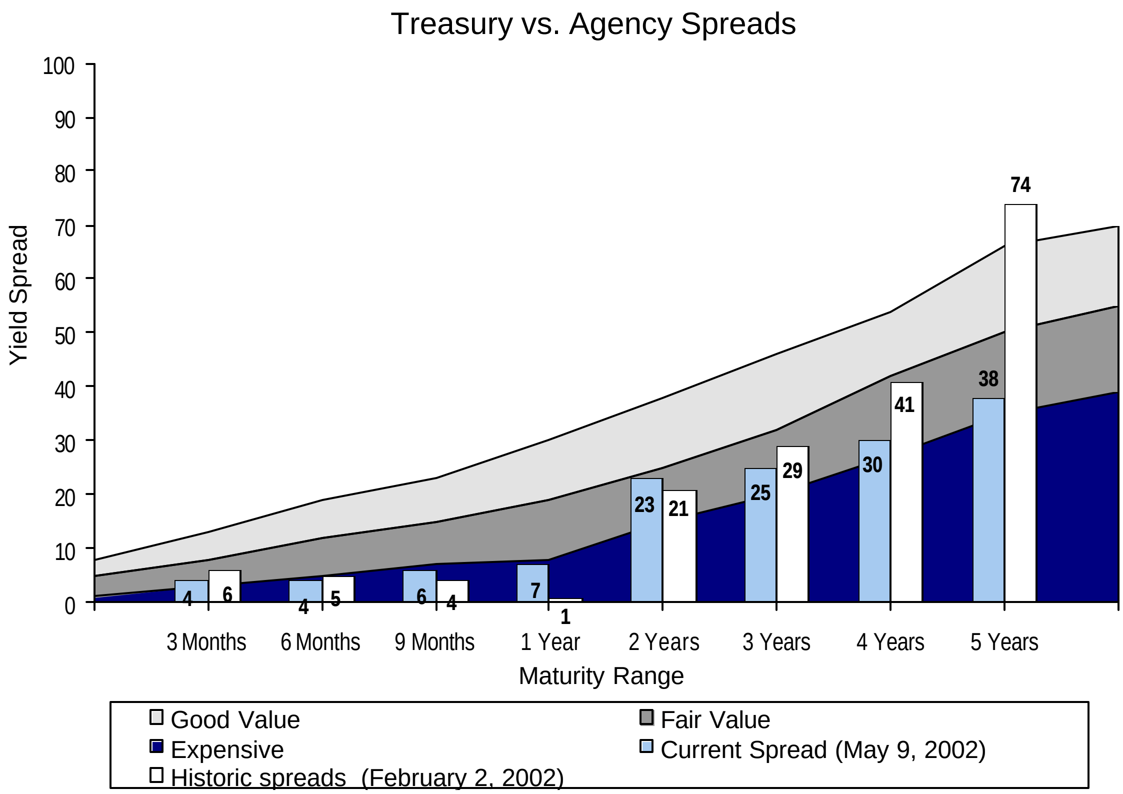
Totals	**100%**	**100%**	**100%**	

*Based on par values of securities in pool portfolio.

The County made selective purchases in the Treasury sector at the end of the quarter near the high in interest rates so far in 2002. These purchases totaled $30 million and were focused in the 1-¾ year maturity range. These securities were purchased at an average yield of 3.51%. This increased the allocation to Treasury securities from 6.9% to 11.3%. As of March 31, 2002, the portfolio remains well diversified.

Spreads between U.S. Treasuries and Federal Agencies have narrowed since the beginning of the year. Spreads on securities that mature within one year are quite narrow. This may reflect changes in the relationship of these security types, as a 30 basis point yield advantage is quite significant in such a low yield environment. For potential purchases in the 6 to 18 month maturity range, the County should consider the purchase of U.S. Treasury securities to diversify the portfolio and provide opportunities to swap into Federal Agencies should yield spreads widen out.



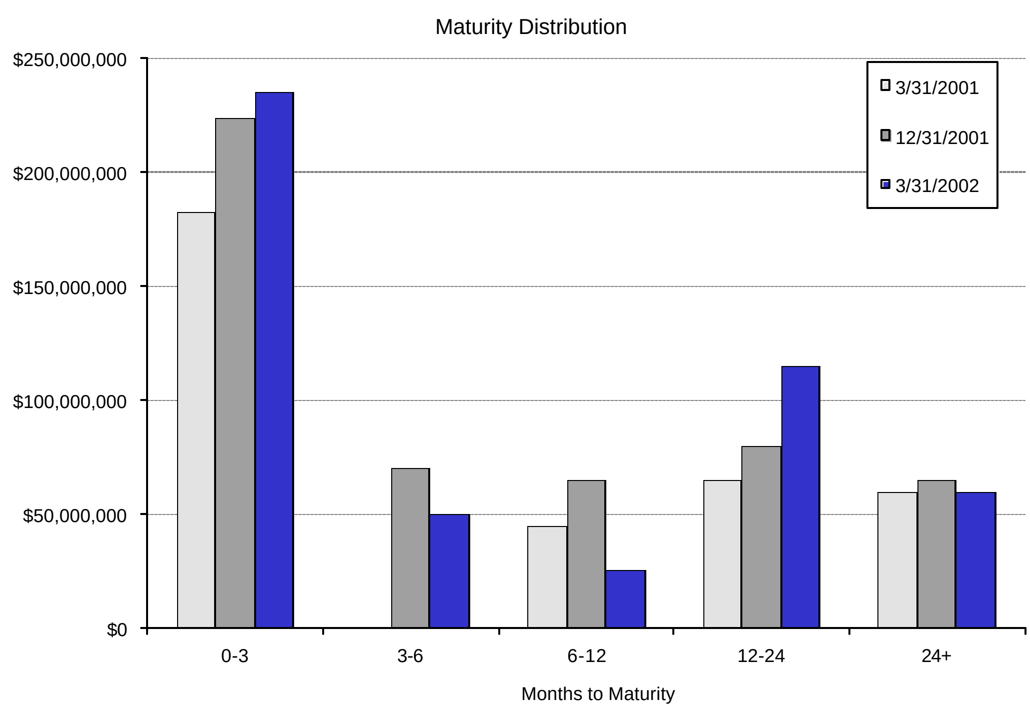
Maturity Distribution

As of March 31, 2002, the portfolio remains highly liquid with 48.5% of the Pool's holdings maturing within 3 months. This high 'cash' allocation was in part due to the County implementing a more 'barbell' portfolio structure to take advantage of the steeply sloped yield curve. The County added $70 million in U.S. Treasuries and Federal Agency Notes in the December 2003 through April 2004 maturity range. These purchases helped maintain the average maturity of the portfolio. As of March 31, 2002, the average maturity of the portfolio was 8.8 months (264 days).

The current average maturity of the Pool is within PFM's suggested average target maturity. During the quarter, $30 million in Federal Agencies were called from the portfolio. With the lower allocation to callables within the portfolio, the effective duration of the portfolio more closely approached the average maturity of the portfolio. As of March 31, 2002, the effective duration of the County Pool was 0.59 years or 7.0 months. This compares with an effective duration of 0.48 years or 5.7 months as of December 31, 2001.

Given the historically low level of interest rates, we recommend that the County maintain an average weighted maturity in the 8 to 9 month range and an effective duration of roughly 7 to 8 months. PFM continues to recommend a 'barbell' investment strategy that capitalizes on the competitive rate of return offered by the State LGIP and the steeply sloped yield curve. We would suggest maintaining a high allocation of funds in the State LGIP while making selective purchases of U.S. Treasuries and Federal Agencies in the 1 to 3 maturity range.

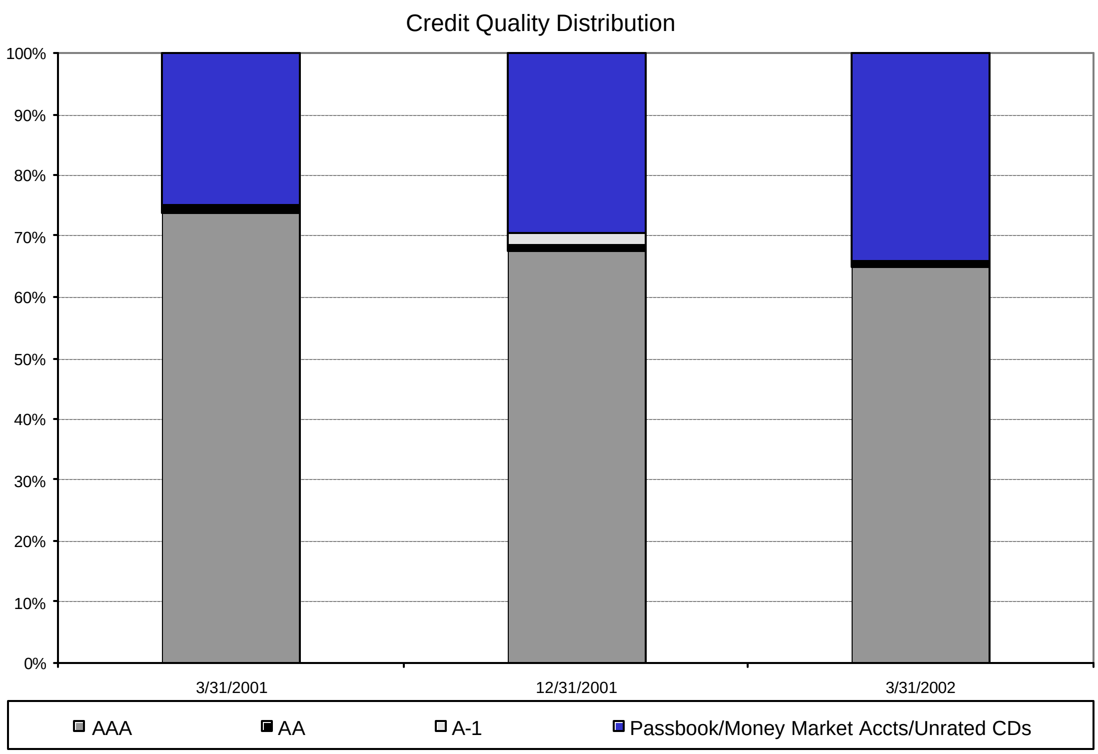
The chart below illustrates the maturity distribution of the County's portfolio as of March 31, 2002, the prior quarter end, and the distribution a full year ago.



Credit Quality

The portfolio is of very high credit quality with 65% of the portfolio invested in obligations rated "AAA". Over 34% of the portfolio was invested in the State LGIP, which does not maintain a credit rating. The overall high credit quality of the portfolio continues to be maintained by the County's investment strategy.

The chart below shows the credit quality distribution of the portfolio as of March 31, 2002, compared to December 31, 2001, and March 31, 2001.

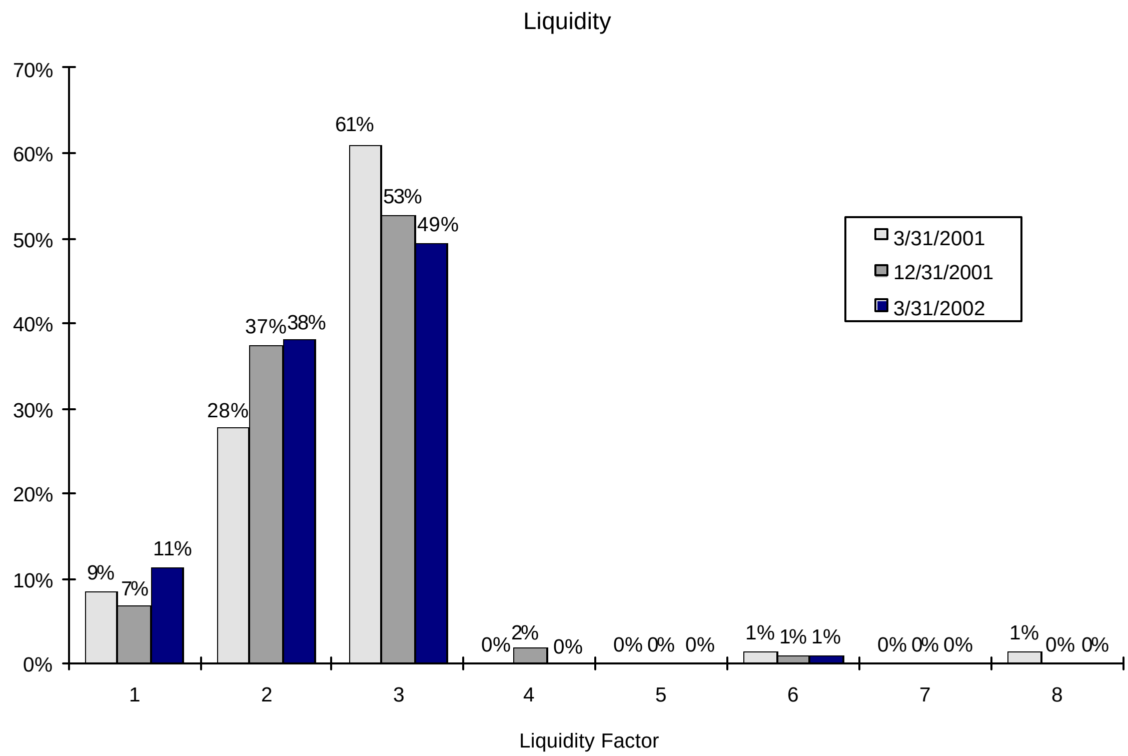


Liquidity

The County's portfolio remains highly liquid. As of March 31, 2002, 99% of the portfolio was invested in obligations rated among one of PFM's three highest liquidity-rating categories (1, 2, and 3), with the remaining 1% invested in municipal obligations.

During the quarter, the liquidity risk of the portfolio decreased modestly from 2.54 as of December 31, 2001, to 2.42 as of March 31, 2001. The County increased its allocation to U.S. Treasuries, which raised the percentage allocated to Category 1 by from 6.9% to 11.3%. The portfolio remains well within PFM's recommended liquidity range of 2 to 4.

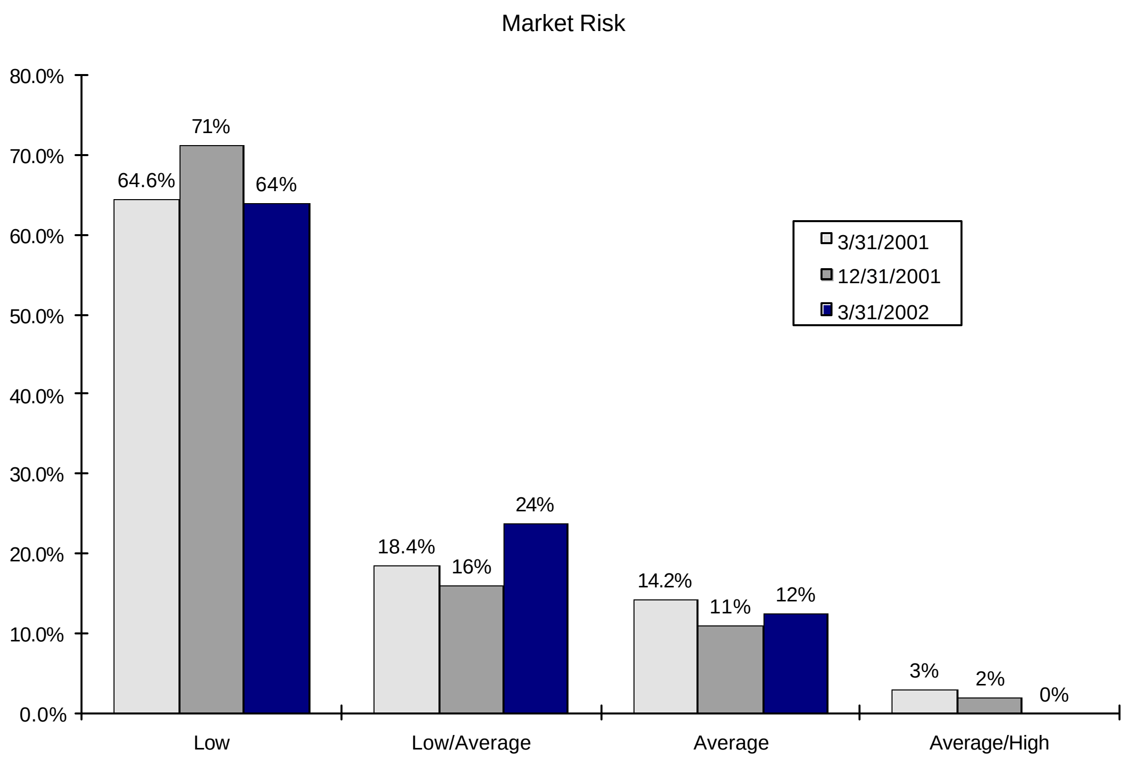
The chart below shows the liquidity distribution of the portfolio as of March 31, 2002, compared to December 31, 2001, and March 31, 2002. Category 1 represents securities that can be easily sold with little difference between the bid and offer prices, such as U.S. Treasuries. Category 8 represents securities that are generally considered illiquid such as non-negotiable certificates of deposit.



Market Risk

Approximately 64% of the portfolio is invested in securities with maturity dates less than 365 days. These holdings are classified as having a low exposure to market risk. Nearly 88% of the portfolio was invested in securities with maturities under 2 years and can be categorized as maintaining a low or low/average exposure to market risk. $60 million par was invested in securities that matured beyond two years at the end of the quarter with $20 million of these securities being callable before May. The chart below shows the portfolio's exposure to market risk as of the current quarter end, 3 months ago, and one year ago.

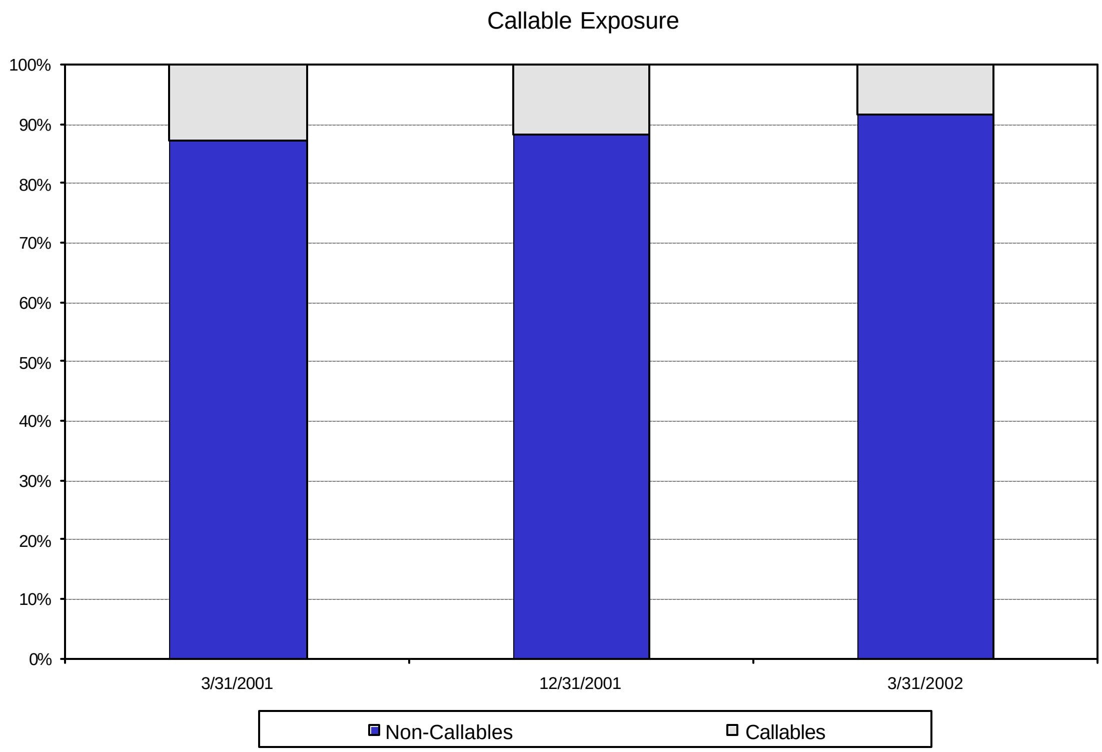
Securities in the portfolio are shown to their ultimate maturity date. Because a number of the longer-term holdings are callable, it is possible that they will be called prior to maturity. Therefore, this analysis may slightly overstate the market risk in the portfolio.



Call Exposure

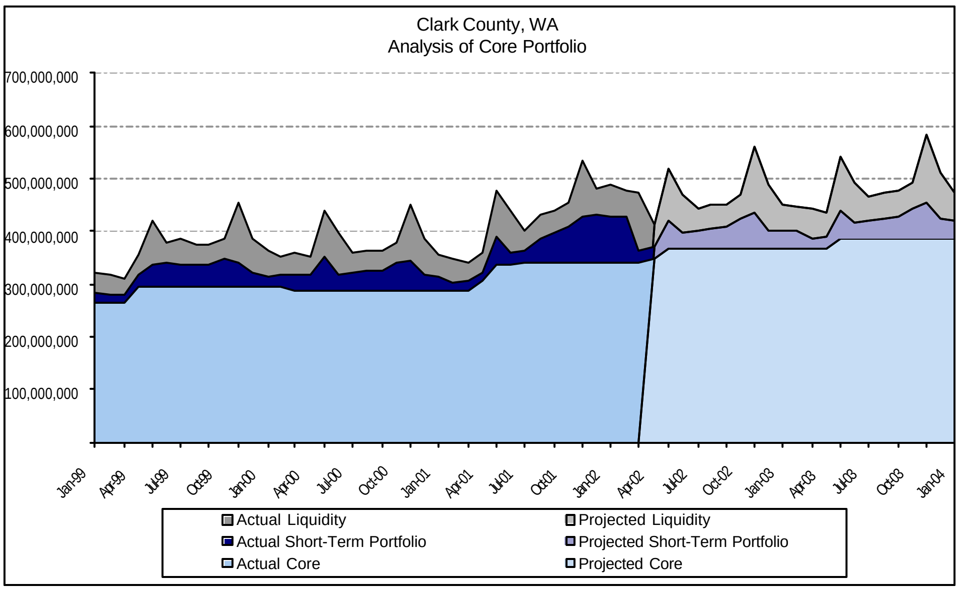
The portfolio's allocation to callable obligations declined modestly as $20 million in Federal Agencies were called from the portfolio. As of March 31, 2002, $40 million in callable Federal Agencies remained invested in the portfolio representing approximately 8.2% of the total funds invested by the Pool. It is likely that three-quarters of the remaining callable securities ($30 million) will be called before mid-May.

Given the limited exposure to callable securities, the County may wish to consider increasing the allocation to this sector. PFM recommends limiting any new purchases to callable structures that have good call protection.



The chart below represents cash flow projections for the County's portfolio. The model is based on changes in historic balances from January 1996 to March 2002. The data on the left side of the chart represents actual historical data. The data on the right side represents projected balances. Projections are based on historical seasonality[3] and a 5% annual growth rate.

The portfolio is allocated among the following three components: 1) Liquidity – representing funds needed to cover cash needs in the upcoming month. These funds are typically invested in very short-term money market instruments and the State LGIP. 2) Short-term portfolio – this includes funds set aside to provide liquidity for anticipated disbursements in two to six months and an added cushion should liquidity requirements suddenly increase. And 3) Core – this represents the portion of the portfolio that can be invested in longer-term obligations to achieve higher rates of return over the long run.



As reflected by the chart, the County's portfolio balance predictably reaches its peaks in May and November and its low points in March and September.

[3] A predictable change in the monthly balance from year-to-year due to the timing of cash inflows and outflows.

The following table focuses on the relative value of shorter-term investments between sectors. The table illustrates the current yield spreads and the 6-month average spreads of various securities as compared to U.S. Treasury Bills in the same maturity range. The table also provides an evaluation and current outlook of PFM portfolio managers on the short-term market. Since the County needs to maintain a relatively high degree of liquidity in its portfolio, this may serve as an additional reference for evaluating trade opportunities in the current market.

REVIEW OF INVESTMENT SECTORS

5/9/02	Sector Spreads to U.S. Treasuries								Current Evaluation	Recommendation & Outlook
	60-90 days		120-180 days		180-270 days		270-360 days			
Sector		6 mo. Avg.		6 mo. Avg.		6 mo. Avg.		6 mo. Avg.		
U.S. Treasuries	1.69%	1.76%	1.72%	1.89%	1.80%	2.00%	2.20%	2.75%	FAIR HOLD	Bills continue to be expensive compared to D/Ns.
Agency Discount Notes	0.04%	0.04%	0.04%	0.05%	0.06%	0.05%	0.07%	0.05%	FAIR HOLD OR BUY	D/N spreads have come in throughout the curve.
Non-callable	0.07%	0.07%	0.06%	0.08%	0.08%	0.07%	0.12%	0.08%	EXPENSIVE HOLD OR SELL	Federal Agency Notes do not offer enough yield pickup in comparison to Agency D/N.
Callable (1yr/3month)							0.26%	0.23%	CHEAP HOLD or BUY	New issue callable securities have recently been issued.
Bankers Acceptances	0.05%	0.06%	0.02%	0.05%	0.05%	0.06%			FAIR-EXPENSIVE HOLD	BA's offer little pickup to Discount Notes, very limited supply.
Commercial paper	0.08%	0.09%	0.10%	0.11%	0.13%	0.11%			CHEAP HOLD OR BUY	CP is trading close to CD's, cheap to Discount Notes.
Repurchase Agreements (Term)	0.06%	0.04%	0.05%	0.04%					FAIR – CHEAP HOLD	REPO continues to be attractive overnight – 3 weeks versus term.

Although the Federal Reserve left the Federal Funds Rate unchanged at its March 19th meeting, a slight shift in monetary policy occurred. The Federal Open Market Committee shifted its bias from 'weakness' to 'neutral' signaling improvement in the economy. On May 7th, the FOMC reaffirmed this outlook and kept the Fed Funds Rate at 1.75%. Initially, this change in bias sparked fears that the Federal Reserve may begin raising rates earlier than expected. However, continued economic weakness in the labor markets and corporate profits combined with the possibility that the growth in manufacturing activity may be solely due to inventory rebuilding has subsided thoughts that the FOMC will raise rates on June 26th.

At the present time, the State LGIP still offers good value along with excellent liquidity. We feel that the State LGIP will likely offer the best relative value for most of the second quarter. However, we still recommend that the County evaluate alternative investment sectors, such as high-quality (A-1) commercial paper and collateralized certificates of deposit, against the LGIP.

Provided below is a summary of PFM's recommendations.

- **Maintain current asset mix.** Yields between Federal Agencies and U.S. Treasuries continue to be narrow in the 6 to 18 month maturity range. Within this maturity range, PFM would recommend purchasing additional U.S. Treasury securities.

- **Utilize State LGIP for short-term investments until CP becomes more attractive.** Yields on money market funds, such as the State LGIP, tend to lag declines in market rates. We would recommend evaluating alternative investment sectors against the Washington State Local Government Investment Pool, such as commercial paper or collateralized certificate of deposits. If the LGIP offers a higher yield, which it currently does, we would suggest maintaining the allocation to the LGIP to enhance returns.

- **Minimize interest rate risk by targeting an average maturity of 8-9 months.** Last quarter, we recommended slightly reducing the average maturity of the portfolio from 9-10 months to 8-9 months. The average maturity modestly declined from 9.0 months to 8.8 months during the quarter, within PFM's current recommended maturity range. With short-term yields expected to rise over the next 3 to 9 months, we suggest maintaining an average maturity of 8-9 months to protect against market risk.

- **Consider increasing allocation to callables.** Many of the current callable securities are expected to come due by mid-May reducing the allocation to callable Federal Agencies to a mere 2.1% of the portfolio. With certain callable structures offering substantial benefit over comparable bullet securities, PFM suggests adding to this sector. We would recommend limiting any new purchases to callable securities that have some period of call protection embedded in their structure.

The sector and maturity composition recommendations below are based on our current market assessment, the County's investment objectives and limitations imposed by the County's investment policy.

Investment Sector	Recommended Average Maturity	Current Average Maturity	Recommended % of Portfolio	Current % of Portfolio
U.S. Treasury Obligations	9 months - 1.75 years	20.4 Months	5% - 15%	11%
Federal Agency Notes/Discount Notes	6 months - 2.00 years	0.98 Years	50% - 75%	54%
Municipal Obligations	0 months - 2.00 years	0.25 Years	0% - 5%	1%
Commerical Paper, Certificates of Deposit, Domestic Banker's Acceptances, State Pool	1 - 60 days	1 Days	20% - 40%	34%
Aggregate Average Maturity	**8 - 9 months**	**8.8 Months**		